

Message Text

CONFIDENTIAL

PAGE 01 BONN 14734 01 OF 02 171912Z

44

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-14 IO-14 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00 FPC-01

H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 DRC-01 /196 W

----- 044731

R 171741Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5088

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

AMEMBASSY TOKYO

AMEMBASSY TEHRAN

AMEMBASSY OSLO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14734

E.O. 11652: GDS

TAGS: ENRG, ETRD, GW, IR, EEC

SUBJECT: FRG DUTY-FREE IMPORTS FROM IRAN OF REFINED
PETROLEUM PRODUCTS

REF: A. BONN 12092; B. BONN 11830; STATE 164851

1. DURING A CONVERSATION WITH ECONOMICS MINISTRY

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PAGE 02 BONN 14734 01 OF 02 171912Z

MID-EAST EXPERT HENZE, EMBOFF ASKED ABOUT THE STATUS

OF THE FRG PROPOSAL TO SEEK PREFERENTIAL TREATMENT FOR THE IMPORTATION OF PETROLEUM PRODUCTS FROM IRAN. HENZE SAID THE FRG INTENDED TO PURSUE THIS MATTER WITHIN THE EC POSSIBLY THIS MONTH OR NEXT SINCE THERE IS SOME TIME PRESSURE INVOLVED. NEGOTIATIONS BETWEEN THE COMPANIES AND THE GOI ARE DUE TO RESUME LATER THIS MONTH (SEE SEPTEL FOR STATUS REPORT). HENZE NOTED THAT ALL THE FINANCIAL INTERNAL CALCULATIONS HAD BEEN MADE ON THE BASIS OF ZERO-DUTY AND WHILE HE REFUSED TO SAY THAT PREFERENTIAL TREATMENT WAS A SINE QUA NON, HE STATED THAT IT WAS A MAJOR FACTOR IN THE NEGOTIATIONS.

2. HENZE SAID THAT THE FRG WAS CURRENTLY TRYING TO FIND A WAY TO MEET THE USG CONCERNS WHILE AT THE SAME TIME ENABLING THE OUTPUT OF THE PROPOSED 25 MILLION TON REFINERY IN IRAN TO ENTER THE FRG DUTY FREE. HE SAID ONE POSSIBILITY UNDER CONSIDERATION WAS TO INCLUDE THE PRODUCTS UNDER THE EC'S GENERALIZED PREFERENCE ARRANGEMENT BUT THE INDUSTRY OBJECTED TO THIS PROPOSAL ON THE GROUNDS THAT THE GSP TIME LIMIT DIDN'T PROVIDE ENOUGH SECURITY THAT THE DUTY-FREE STATUS WOULDN'T SUBSEQUENTLY BE CHANGED. IN RESPONSE TO EMBOFF'S QUESTION ABOUT PROSPECTS OF OBTAINING EC AGREEMENT TO THE FRG'S PROPOSAL, HENZE REMARKED THAT HE THOUGHT THAT IRAN WOULD PUT PRESSURE ON BOTH THE UK AND FRANCE TO ACCEPT THE PROPOSAL AND HE DOUBTED THAT THEY WOULD BE ABLE TO RESIST THIS PRESSURE.

3. IN A SEPARATE CONVERSATION LATE LAST WEEK THE ECONOMIC/COMMERCIAL MINISTER RAISED THIS SAME TOPIC WITH FOREIGN MINISTRY ECONOMICS DIRECTOR HERMES. FOREIGN OFFICE ENERGY EXPERT KRUSE RESPONDED THAT THE PROPOSAL HAD NOT BEEN DROPPED. HE ADDED THAT THE FRG WAS AWARE OF US CONCERNS BUT WAS SO FAR AT A LOSS AS TO HOW TO DEAL WITH THEM.

4. COMMENT: THIS PROJECT IS AN EXTREMELY IMPORTANT ONE FOR THE FRG. IRAN HAS BEEN AT THE CENTER OF THE FRG'S EFFORTS TO IMPROVE ITS RELATIONS WITH THE MIDDLE-EAST AND THIS PROJECT REPRESENTS A SYMBOL OF CONFIDENTIAL

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PAGE 03 BONN 14734 01 OF 02 171912Z

ECONOMIC AND INDUSTRIAL COOPERATION BETWEEN THESE TWO

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PAGE 01 BONN 14734 02 OF 02 171911Z

44

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 14734

COUNTRIES. THIS IS THE MAJOR PROJECT UNDER CONSIDERA-
TION AND NEGOTIATIONS HAVE BEEN GOING ON SINCE WELL
BEFORE LAST FALL'S ENERGY CRISIS. ECONOMICS MINISTER
FRIDERICH'S DISCUSSED IT PERSONALLY WITH THE SHAH LAST
WINTER AND WITH PRIME MINISTER HOVEIDA DURING HIS
VISIT TO BONN THIS SPRING. GERMANY IMPORTS AROUND
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PAGE 02 BONN 14734 02 OF 02 171911Z

28 PER CENT OF ITS PETROLEUM PRODUCT REQUIREMENTS (45 MILLION METRIC TONS IN 1973). WHEN THE REFINERY IS COMPLETED, UNDER THE TERMS OF THE CONTRACT FRG WOULD HAVE RELATIVELY SECURE ACCESS TO 12.5 MILLION TONS OF PRODUCT ANNUALLY WITH A FIRST OPTION TO ANOTHER 10 MILLION TONS. GERMAN PURCHASERS HOPE PRODUCTS WILL BE GUARANTEED SOME PROTECTION AGAINST WILD FLUCTUATIONS IN PRODUCT PRICES AS WELL SINCE THEY WON'T HAVE TO COMPETE ON THE OPEN MARKET FOR SCARCE PRODUCT IN TIMES OF SHORTAGE.

5. THERE APPEAR TO BE SOME INTER-MINISTERIAL DIFFERENCES ON TACTICS WITH THE ECONOMICS MINISTRY PUSHING HARDER THAN THE FOREIGN MINISTRY; BUT, GIVEN THE AMOUNT OF POLITICAL CAPITAL ALREADY INVESTED IN THE PROJECT, THE FRG WOULD BE IN A BIND IF PROJECT FELL THROUGH OWING TO OBJECTIONS OF OTHER TRADING PARTNERS.
HILLENBRAND

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